

**REGULAR STATE BANKING BOARD MEETING
HELD BY CONFERENCE CALL
OFFICE OF THE COMMISSIONER
DEPARTMENT OF FINANCIAL INSTITUTIONS
2000 SCHAFER STREET, SUITE G
BISMARCK, NORTH DAKOTA**

March 2, 2006

The regular meeting of the State Banking Board was held in the Office of the Commissioner, Department of Financial Institutions, 2000 Schafer Street, Suite G, Bismarck, North Dakota. Chairman Karsky called the meeting to order at 9:05 a.m., Thursday, March 2, 2006, by conference call.

MEMBERS PRESENT: Timothy J. Karsky, Chairman (*Office*)
Ron Braseth, Member (*Mayville*)
Lorren Henke, Member (*Wishak*)
Launa Moldenhauer, Member (*Office*)
Roger Monson, Member (*Finley*)
Anita Quale, Member (*Watford City*)

MEMBER ABSENT: Bill Daniel, Member

ALSO PRESENT: Suzette Richardson, Acting Secretary (*Office*)
Doug Grenz, Chief Examiner – Banks (*Office*)
Stephen Stenehjem, First International Bank &
Trust, Watford City (*Watford City*)
Scott Coleman, Lindquist & Vennum
(*Minneapolis, MN*)
John Brown, Security State Bank of North
Dakota, Hannaford (*Fargo*)

APPROVAL OF ACTING SECRETARY

Chairman Karsky indicated that Suzette Richardson would be Acting Secretary due to the absence of Assistant Commissioner Entringer.

It was moved by Member Braseth, seconded by Member Monson, and carried by a vote of 6 to 0, with Member Daniel absent, to approve Suzette Richardson as Acting Secretary.

APPROVAL OF MINUTES

Chairman Karsky indicated the Board received copies of the minutes of the regular meeting held on January 12, 2006.

It was moved by Member Quale and seconded by Member Braseth to approve the November 10, 2005, minutes as presented. The motion carried by a vote of 6 to 0, with Member Daniel absent.

CHANGE OF CONTROL APPLICATION – WATFORD CITY BANCSHARES, INC., WATFORD CITY, TO ACQUIRE 100% OF THE VOTING SHARES OF ELGIN BANCSHARES, INC., ELGIN; MERGER APPLICATION – FARMERS STATE BANK, ELGIN, TO MERGE INTO FIRST INTERNATIONAL BANK & TRUST, WATFORD CITY

Chairman Karsky reviewed Assistant Commissioner Entringer's Memorandum dated February 22, 2006, noting that the Department received the Change of Control and the Interagency Bank Merger applications on January 17, 2006. Chairman Karsky pointed out the letter of completeness for the change of control application was not mailed until February 21, 2006; however, despite the delay in mailing the letter of completeness, no additional information for the change of control was requested.

Chairman Karsky indicated pursuant to North Dakota Administrative Code Section 13-02-17-01, notice of the proposed change of control application was published in the Grant County News, Elgin on February 1, 2006. The comment period ended February 13, 2006, and no comments have been received nor have there been any requests for copies of the application.

Chairman Karsky indicated North Dakota Century Code Section 6-08-08.1(4) provides that the State Banking Board may disapprove any change of control application if the Board determines that (1) the character, reputation, general fitness, financial standing and responsibility of the persons proposed as

new stockholders, directors, or officers is such that the interest of the other stockholders, depositors, and creditors of the institution and the public generally will be jeopardized by the change in control and management; and (2) the qualifications of management do not include adequate experience with financial institutions or other approved related experience.

Chairman Karsky indicated Watford City Bancshares, Inc., is proposing to acquire all of the voting shares of Elgin Bancshares, Inc., and then to merge Elgin Bancshares, Inc., into Watford City Bancshares, Inc. The executed Stock Purchase Agreement is included in the confidential portion of the application under Tab 3. Chairman Karsky indicated Watford City Bancshares, Inc., intends to merge the target subsidiary bank into First International Bank & Trust after the merger of the holding companies. Chairman Karsky pointed out neither the Department nor the State Banking Board act on the merger of the holding companies; that merger is accomplished pursuant to the Business Corporations Act which is not under our purview.

Chairman Karsky stated the pro forma information for both the holding company and the subsidiary bank indicate both the holding company and the subsidiary bank are expected to maintain a “well capitalized” status throughout the projection period. The assumptions used in the projections appear reasonable when compared to the UBPR.

Chairman Karsky indicated the merger application indicates there are no proposed changes in the officers of the bank; the only change would be the addition of Aaron D. Levorsen as President of the Elgin facility.

In regard to the merger application, Chairman Karsky indicated notice of the application was sent on January 24, 2006, and published in the following newspapers: Grant County News, Elgin (February 1 and 8, 2006); The Forum, Fargo (February 6 and 17, 2006); The Herald-Press, Harvey (January 28 and February 4, 2006); Dunn County Herald, Killdeer (January 27 and February 3, 2006); Minot Daily News, Minot (January 27 and February 3, 2006); McKenzie County Farmer, Watford City (February 1 and 8, 2006); and Williston Daily Herald, Williston (January 26 and February 2, 2006). Direct notice was also sent to 82 banks within the trade area in North Dakota. No comments or requests for copies of the application were received.

Chairman Karsky indicated North Dakota Administrative Code Chapter 13-02-13 sets forth the requirements for banks to follow when merging banks or holding companies.

Chairman Karsky indicated the Plan of reorganization or merger has been provided to the Department; a waiver of notice of shareholder meeting to ratify the merger of consolidation has been provided; however, the sole shareholder of the banks will be Watford City Bancshares, Inc.

Chairman Karsky indicated the pro forma balance sheet shows in order to remain in the “well capitalized” category the bank must maintain a total risk-based capital ratio of 10.0 percent or greater; a Tier 1 risk-based capital ratio of 6.0 percent or greater; a leverage ratio of 5.0 percent or greater; and the bank is not subject to any written agreement, order, capital directive, or prompt corrective action. Chairman Karsky indicated the bank meets all the criteria to maintain a well capitalized status through 2010. Chairman Karsky pointed out according to Assistant Commissioner Entringer’s calculations the State Banking Board’s Primary Capital Ratio would be 8.83% as of 9-30-05 post merger; 8.99% as of 12-31-05; and 9.08% as of 12-31-06. Chairman Karsky concluded all of the assumptions used in the projection appear reasonable when compared to 12-31-05 UBPR averages.

Chairman Karsky indicated there are no proposed changes in the officers of the bank, with the exception of the addition of Aaron D. Levorsen as President of the Elgin facility; nor are there any proposed changes to the bank’s business plan, hours of operation, fees, terms for deposit and loan accounts, and board of directors.

Chairman Karsky indicated North Dakota Administrative Code Section 13-02-13-04 sets forth the criteria for the State Banking Board’s consideration for approving the application.

Chairman Karsky indicated the Plan of reorganization or merger has been provided to the Department, along with a waiver of notice of shareholder meeting to ratify the merger of consolidation has been provided.

Chairman Karsky indicated the Pro Forma and Projected Regulatory Capital Schedule projects the resultant bank will remain in the “well capitalized” category as of September 30, 2005, as well as throughout the projection period.

Additionally, the calculated State Banking Board's Primary Capital ratios noted above are well above the minimums set by the State Banking Board Policy.

Chairman Karsky indicated the applicant indicates the full line of products and services will be made available to the Elgin community; no services will be eliminated as a result of the merger. In addition the customers will have many additional locations at which to conduct their banking business.

Chairman Karsky indicated management of the target and acquiring institution are both considered to be satisfactory, and there will be no changes in management.

Chairman Karsky pointed out in previous merger applications a facility application was also required. Due to a change in the law in 2005, all locations of a "target" bank in a merger now automatically become a facility; therefore a separate application for the facility is not required.

President Stenehjem indicated that approximately 18 months ago Carlton Levorsen contacted him and asked if he would be interested in buying the Farmers State Bank, Elgin, but no action was taken at that time. President Stenehjem stated approximately 6 months ago Mr. Levorsen called again and was quite persuasive in his offer to buy the Farmers State Bank. President Stenehjem stated he and other officers of his bank visited the Farmers State Bank to become more familiar with their staff and operation; and felt the Farmers State Bank would be a good "fit" for them, as First International Bank & Trust does not have any facilities in that area of the state. President Stenehjem stated the philosophy of Farmers State Bank is similar to First International Bank & Trust, with agricultural being a staple of their business, and their desire to do whatever possible for their customers. President Stenehjem stated First International Bank & Trust had previously been buying participations from the Farmers State Bank, so were somewhat familiar with their larger credits; and also that they felt comfortable with the assets of Farmers State Bank. President Stenehjem indicated Carlton and Aaron Levorsen were anxious for First International Bank & Trust to provide services to their customers that Farmers State Bank was not currently providing; such as mortgage lending, trust department, insurance services, PC banking, telephone banking, and internet banking. President Stenehjem stated the separate compliance and audit departments of First International Bank & Trust were also favorable additions, since with a staff of only 8 to 10 individuals, Farmers State Bank was not capable of having those departments.

President Stenehjem stated he compiled projections that indicated this merger would be a good source of income and pay for itself in a reasonable period of time; therefore, negotiations were made, with the end result being this proposed merger.

President Stenehjem indicated a lot of time has been spent working on what will be necessary in order to convert Farmers State Bank's computer system to the system used at First International Bank & Trust. President Stenehjem stated they have enjoyed working with the staff of Farmers State Bank and believe they can learn a lot from the staff of First International Bank & Trust, since First International Bank & Trust has tried to stay updated technologically.

President Stenehjem concluded they are anxious to complete the merger, and feel the larger legal limit that will be offered will be very helpful to some of the larger farmers in the Elgin area.

Chairman Karsky asked President Stenehjem if Carlton Levorsen is retiring from Farmers State Bank, and President Stenehjem stated two employees are retiring, Carlton Levorsen and one other employee that has been with the bank for 30-35 years. President Stenehjem stated the rest of the staff of Farmers State Bank will remain, with Aaron Levorsen acting as President of the Elgin facility.

Scott Coleman stated the application with the state was filed concurrently with a FRY3 application with the Federal Reserve Bank of Minneapolis, and received approval of that application on February 10, 2006, with the only condition being that the holding company remain well-capitalized on a consolidated balance at consummation. Mr. Coleman stated that condition will be met.

Mr. Coleman stated an Interagency Bank Merger Act Application was filed with the FDIC, and received approval of that application on February 16, 2006, with no conditions attached.

Mr. Coleman indicated the Plan of Merger was executed on February 28, 2006, and a copy was provided to the Department. Mr. Coleman stated Watford City Bancshares, Inc., the sole shareholder of First International Bank & Trust, approved the transaction and waived notice of the shareholders on February 23, 2006. Mr. Coleman stated Elgin Bancshares, Inc., the sole shareholder of Farmers State Bank, approved the merger transaction on February 24, 2006, and also waived notice of the shareholder meeting.

It was moved by Member Moldenhauer and seconded by Member Henke to approve the change of control application by Watford City Bancshares, Inc., Watford City, to acquire 100% of the voting shares of Elgin Bancshares, Inc., Elgin.

Chairman Karsky indicated President Stenehjem had asked whether the Department had received any requests for copies of the applications, and Chairman Karsky indicated the only question he had been asked is why the bank is submitting these applications. Chairman Karsky stated he feels the explanation given by President Stenehjem was very good, and had not realized these banks had previous relationships.

The motion was carried by a vote of 6 to 0, with Member Daniel absent.

It was moved by Member Monson and seconded by Member Braseth to approve the application to merge Farmers State Bank, Elgin, into First International Bank & Trust, Watford City, and that Chairman Karsky be approved to sign the Order on behalf of the State Banking Board. The motion was carried by a vote of 6 to 0, with Member Daniel absent.

Stephen Stenehjem and Scott Coleman left the conference call at 9:25 a.m.

MERGER APPLICATION – CENTENNIAL NATIONAL BANK, WALKER, MN, TO MERGE INTO SECURITY STATE BANK OF NORTH DAKOTA, HANNAFORD

John Brown joined the conference call at 9:26 a.m.

Chairman Karsky reviewed Assistant Commissioner Entringer's Memorandum dated February 22, 2006, noting that the Department received the Interagency Bank Merger Application on January 20, 2006. Notice of the application was published in the Griggs County Courier, Cooperstown, ND, and The Pilot-Independent, Walker, MN, pursuant to Section 13-02-13-03.1, North Dakota Administrative Code. The notices were published on January 20, February 3, February 17, 2006; and January 18, February 1, and February 15, 2006, respectively; and the comment period ends February 20, 2006. Chairman Karsky

indicated as of the date of this Memorandum, no comments or requests for copies of the application had been received.

Chairman Karsky indicated North Dakota Administrative Code Chapter 13-02-13 sets forth the requirements for banks to follow when merging banks or holding companies.

Chairman Karsky indicated a Plan of Reorganization or Merger was included in the application; a Waiver of Notice of Meeting and Publication of Notice of Meeting for the sole shareholder of both banks was included in the application; and a copy of shareholders' minutes showing ratification of merger by the shareholders who own at least two-thirds of the outstanding capital stock were included in the application. Chairman Karsky indicated the banks are wholly owned subsidiaries of Security State Bank Holding Company, both of whom approved the Merger Agreement and authorized the officers to proceed with the appropriate applications.

Chairman Karsky indicated a pro forma balance sheet of the resultant bank was included in the application; no change of executive officers is anticipated, and no changes in the business plan, hours of operation, fees, terms for deposit and loan accounts are anticipated at this time. Chairman Karsky indicated the applicant indicates they believe the service to customers, as well as efficiency of operations will be enhanced and reviewed on an ongoing basis.

Chairman Karsky indicated North Dakota Administrative Code Section 13-02-13-04 sets forth the criteria for the State Banking Board's consideration for approving the application.

Chairman Karsky indicated the sole shareholder of the banks, Security State Bank Holding Company, signed a Waiver of Notice of Meeting and Publication of Notice of Meeting; the merger was unanimously approved by both the Security State Bank of North Dakota and the Centennial National Bank at meetings held January 11, 2006; and the sole shareholder, Security State Bank Holding Company approved the Merger Agreement on January 10, 2006.

Chairman Karsky indicated the application details the pro forma information, which includes the projected risk-based capital ratios; at the end of the first year Tier 1 Leverage is projected to be 7.89%, Tier 1 Risk-based is projected to be 9.51%, and Total Risk-based capital is projected to be 10.51%. Chairman

Karsky stated the projected ratios will keep the bank in the “Well Capitalized” capital category for federal regulatory purposes, and the State Banking Board’s Primary Capital Ratio calculated using the Pro Forma information is projected to be 9.02% at the end of the first year.

Chairman Karsky indicated the applicant indicates all services and products currently offered will continue to be offered in the resultant bank; these products and services are reviewed on an on-going basis, and if the convenience and needs of the customers as well as reasonable pricing can be accomplished, new products and services will be added.

Chairman Karsky concluded that the adequacy and competence of management of both institutions is considered to be satisfactory.

Chairman Karsky stated pursuant to Section 6-08.4-03 of the North Dakota Century Code a North Dakota state-chartered bank, with approval of the board, may establish, acquire, retain, and operate one or more branches in a state other than this state. Chairman Karsky indicated an application must be filed with the board at the time an application is filed with the responsible federal regulatory authority, and the North Dakota state-chartered bank must also comply with Sections 6-03-11 or 6-03-13.3, as applicable.

Chairman Karsky indicated the board may approve the transaction (1) if the board finds that the proposed transaction will not be detrimental to the safety and soundness of the North Dakota state-chartered bank – the projections do not indicate any adverse consequences on the resultant bank; (2) any new officers and directors are qualified, and possess appropriate experience and financial responsibility – as indicated in the application the current Board of Directors will remain the same, and there is no information available proving the officers do not possess the appropriate experience, are not financially responsible, or are not qualified; (3) the proposed transaction is consistent with the convenience and needs of the communities to be served by the bank in this state and is otherwise in the public interest – as previously indicated there will be no change in the products and services offered.

Chairman Karsky indicated the Department is required to ask for the views and comments of the “host” state regulator in interstate transactions pursuant to the Nationwide Cooperative Agreement, and that Assistant Commissioner Entringer

sent a letter to the Commerce Department in Minnesota and they responded with “no objection to the application.”

Chairman Karsky explained in previous merger applications a facility or interstate branch application was required; however, due to a change in the law in 2005 all locations of a “target” bank in a merger now automatically become a facility or interstate branch; therefore a separate application for the facility or interstate branch is not required.

John Brown explained Mark Brown, President of Security State Bank of North Dakota, had a small interest in the Centennial National Bank, Walker, MN, and because of issues with credit and employees, the bank was given notice by the Office of the Comptroller of the Currency. Mr. Brown explained at that time Tom Watson, an employee of Security State Bank of North Dakota, was hired as a consultant for Centennial National Bank to help with the lending, compliance, and IT areas.

Mr. Brown explained the Security State Bank Holding Company initially brought a small portion of the Centennial National Bank, and the president of the bank left some time after that transaction. At that point one of the stockholders had an option to buy everyone else out, and as part of the buy-sell agreement it was at this time that Security State Bank of North Dakota elected to propose the merger, which was accepted by Centennial National Bank.

Mr. Brown explained that Centennial National Bank is no longer on notice with the OCC or in debt, so the merger was possible. He stated the merger will give customers of Centennial National Bank more services.

Chairman Karsky stated he understands for approximately the last year the Centennial National Bank has basically been run by Security State Bank of North Dakota’s policies and procedures, and Mr. Brown stated that is correct.

Mr. Brown stated at this time of transition positions have been eliminated and they are in the process of reallocating these positions.

Member Moldenhauer asked the location of Walker, Minnesota, and the size of the city. Mr. Brown stated Walker, Minnesota, is approximately 2 hours from Fargo, and there are approximately 1,000 people in the community.

Mr. Brown stated there is also a branch located in the smaller community of Hackensack, Minnesota, which is south of Walker. Mr. Brown stated it is unbelievable the number of cars that go through this area, so Security State Bank of North Dakota is very optimistic about this location.

It was moved by Member Braseth and seconded by Member Quale to approve the application to merge Centennial National Bank, Walker, Minnesota, into Security State Bank of North Dakota, Hannaford, North Dakota, and that Chairman Karsky be approved to sign the Order on behalf of the State Banking Board. The motion carried by a vote of 6 to 0, with Member Daniel absent.

John Brown left the conference call at 9:43 a.m.

ITEM FOR APPROVAL

Chairman Karsky indicated the Articles of Amendment for American State Bank & Trust Company of Williston, Williston, to have perpetual existence will not be discussed at this meeting.

ITEM FOR DISCUSSION

Chairman Karsky stated Jerry Willer, President of Kirkwood Bank & Trust Co., Bismarck, has indicated the bank has no intention of establishing a Deposit Production Office in Las Vegas, Nevada.

Chairman Karsky stated there is still some confusion of what a DPO really accomplishes. Chairman Karsky stated for the record that currently a national bank, whether it is located in North Dakota or out of state, can establish a DPO anywhere, basically by submitting a letter to the OCC. Chairman Karsky indicated he, along with Assistant Attorney General Miller, feel an out of state state-chartered bank can establish a DPO in North Dakota if they have a wild card statute that says they can do what a national bank can do. Chairman Karsky stated the only entities penalized in North Dakota that cannot establish a DPO at this time are North Dakota state-chartered banks.

Chairman Karsky indicated he told Don Forsberg, Executive Vice President of the Independent Community Banks of North Dakota, that the State Banking Board would not be acting on the proposed rules for DPOs, as there is no need at this time.

Member Henke asked what is preventing the Board from going ahead with this process.

Chairman Karsky indicated since there is no real need at this time, he feels the rule process for DPOs should be started over so that comments could be resubmitted.

Chairman Karsky indicated there has not been a big demand to establish DPOs in the state, and because North Dakota is one of the states that allows de nova branching this is probably not necessary. Chairman Karsky concluded that DPOs have limited services, and feels this issue may not come up again.

Member Henke asked about the previous opposition to the DPOs, and Chairman Karsky indicated Jim Goetz, Jim Jorgenson, and Marilyn Foss had expressed concern.

Member Monson indicated since it is very unlikely the DPOs will ever be used, it is a mute point to continue the rule process. Member Braseth agreed.

Member Moldenhauer asked how long it would take to get the process going if requested later, and Chairman Karsky stated approximately 3 to 6 months.

It was the consensus of the Board to table this item.

ITEMS TO BE NOTED

Department of Financial Institutions

Articles of Amendment

Farmers State Bank of Crosby, Crosby, to change number of directors from 4, to no less than 3 nor more than 5.

Bank of Turtle Lake, Turtle Lake, to change number of directors from not less than 7 nor more than 8, to not less than 3 nor more than 7.

Approval by Commissioner

Effective January 23, 2006, Chairman Karsky granted approval for The Citizens State Bank of Finley, Finley, to establish a Facility at 220 Main Street South, Northwood.

Comptroller of the Currency

Received 1-17-06, Bremer Bank, National Association, Fargo, to open branch at 1204 19th Avenue North, Fargo

The Board went into closed session at 9:50 a.m.

Timothy J. Karsky, Chairman

Suzette Richardson, Acting Secretary